

# GUIDELINES FOR OVER-THE-COUNTER BINARY OPTION TRANSACTION WITH INDIVIDUALS BUSINESS CONDUCT RULES

Adopted July 18, 2013

## I. — Purposes

The purposes of these Guidelines shall be to show the purport of the Over-The-Counter Binary Option Transaction with Individuals Business Conduct Rules (hereinafter referred to as "Rules"), interpretation of each Article of the Rules and operational remarks, etc. on the Rules.

## II. — Purport and Background of Implementation of Rules

The number of Members who offer over-the-counter binary option transactions with underlying assets of currencies (currency indices) tradable continuously and repeatedly to individuals (hereinafter referred to as "over-the-counter binary option transaction with individuals") newly has increased simultaneously with the introduction of margining regulations for foreign exchange margin transactions that has begun in stages since August 2011, and the volume is set on the increasing trend.

By contrast, over-the-counter binary option transactions with individuals could hardly be described yet as derivatives transactions familiar among individual investors widely, compared with foreign exchange margin transactions as of now, and may give wrong firm impression on their merchantability such as widespread publicity of safe foreign currency investment with, simply, limited loss on the internet despite of their risk-return nature different from foreign exchange margin transactions.

In the first place, options expire at the predetermined due time of exercise, and therefore are not financial instruments suitable for long term holding by a customer unlike investment in underlying assets. If, further, options which due within very short period are used for speculative transactions, the boundary line to divide from so called gambling disappears and opinions that they may have unwanted influence on the development of the entire financial instruments transactions are seen. 1 2 3

Binary option transactions may lead investors to even easier investment compared with other type of option transactions because binary option transactions cause a certain fixed amount of investment loss. We established the Binary Option Working Group after obtaining the approval of the Self-Regulatory Sub-Committee and Operations Sub-Committee on the ground that necessity to summarize the issues specifically and to study responses as self-regulations has occurred such as how financial futures transactions should be treated under the fundamental business policies of the Association's Members that the Members shall endeavor to prevent customers from excessively speculative transactions and improve circumstances for sound financial instruments transactions. 4

12 meetings of the Working Group were held until May 16, 2013, and completed "Regulatory Principles for Binary Option Transactions with Individuals" on December 12, 2012, and subsequently published the Final Report on April 24, 2013, and finished the works as the Binary Option Working Group by adopting the draft for the rules and guidelines on May 16, 2013,

The draft demanded Members to review the existing specification design and trading method of each Member's over-the-counter binary option transactions with individuals and covered overall business including the criteria for the commencement of trading, concrete method of trade limit control and rules for ensuring appropriate trade prices for the basis of gaining credibility of customers, disclosure in light of enlightenment of investors and implementation of the system of advertisement.

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\* This English version is a translation of the original Japanese text. The original Japanese text will prevail should there be any difference in meaning between the English and Japanese versions.

Subsequently, the Rules have been made on July 18, 2013, after various procedures in the Association such as reporting to FX Sub-Committee Administrative Meeting which is responsible for reviewing self-regulations, etc. of foreign exchange margin transactions taking lead of derivatives transactions with individuals as like over-the-counter binary option transactions with individuals.

- 1 Foreign exchange margin transactions have the structure of postponing the settlement of spot transactions of currencies indefinitely, which is similar to transactions of underlying assets.
- 2 With respect to the borderline between derivatives transactions and so called gambling, there are, for example, documents of "Summary of Issues on Financial Derivatives Transactions and Gambling Crime" (November 29, 1999) by Financial Law Board administered by the Bank of Japan.
- 3 For example, negative opinions appeared that binary options are unhealthy as financial instruments in line with the expansion of very short term binary option transactions on the blogs on the Internet.
- 4 A Member of the Association is required to make an effort to prevent excessively speculative transactions by a customer for not only binary options but also all types of financial futures transactions that the Member is engaged pursuant to, among others, Article 19 of the Business Conduct Rules of the Association.

### III.— Interpretation and Guidelines

#### 1. Purpose and Scope of Rules (related to Article 1)

The purposes of these Rules shall be to consolidate and provide for requirements to protect investors and implement the business system of a Member who offers over-the-counter binary option transactions by preventing excessive speculative transactions by investors and offering investors transactions suitable for investors regarding over-the-counter binary options, to which over-the-counter option transactions as defined in (3) and (4) of Article 2.22 of the Financial Instruments and Exchange Act (hereinafter referred to as "Act") are applicable, with underlying assets of financial instruments, etc. referred to in Article 2 (2) of the Rules and the structure tradable continuously and repeatedly offered to individual customers

On-exchange binary option transactions (including overseas on-exchange transactions) are not subject to these Rules, because there is no record of such transactions by Members of the Association as of July 18, 2013. A Member who will offer such binary options with the same structure tradable continuously and repeatedly to individuals in the future should understand the purport of making these Rules and these Guidelines and the details thereof and be careful for such offering.

"Structure tradable continuously and repeatedly" means the structure that the same customer may trade the same type of financial instruments, etc. repeatedly.

#### 2-1-1. Certain Conditions (related to Article 2 (1))

"Case of meeting certain conditions" means that the relationship between the exercise price and the judgment price is positioned in predetermined relationship by a contract such as the judgment price  $\geq$  the exercise price or the judgment price  $\leq$  the exercise price.

Definition of instruments under Article 2.1 (1) does not have particular limitation on the number of exercise prices or timing of establishment, and therefore the type of options for which multiple exercise prices are established such as range binary options and American type of options such as one-touch options shall be subject to these Rules if a Member offers them with the structure tradable continuously and repeatedly to individuals. 6 7

While the positional relationship between the judgment price and the exercise price could be equal to or more than ( $\geq$ ), equal to or less than ( $\leq$ ), more than ( $>$ ), less than ( $<$ ), equal to ( $=$ ), a Member shall endeavor to explain to a customer fully to avoid misunderstanding and obtain the customer's understanding of the in any case where any relationship is a condition for the exercise. 8

- 5 Binary options in which a price zone is created by two exercise prices and payout is determined by the state that the price of underlying assets is within the zone or not as at the judgment time.
- 6 Binary options which has an exercisable period and the payout is fixed as at the time that the

price of underlying assets has reached the exercise price during such period.

7 Generally, options exercisable any time during the exercise period are called American type and options exercisable only at the due date (due date of effectiveness of an option contract) is called European type and options exercisable more than one time during the exercise period is called Bermuda type.

8 In the case of the judgment price=exercise price, options the payout amount of which differ from other price relationship and options with more than two exercise price the payout amount of which differ according to the price zone created by each exercise price shall be subject to these Rules.

9 Original type of options which give the right to acquire the underlying assets at the exercise price (call option) or the right to assign the underlying assets at the exercise price.

10 For example, the structure to combine a contract, in the case of the exercise at the exercise price of 100 Yen per USD 1, with a contract buying back the USD at 101 Yen per USD 1 simultaneously and cause the payout of a certain predetermined amount of money (1 Yen).

11 The case where such transaction is not option, the case of a structure other than the structure to enable continuous and repeated transactions and the case where transactions are not conducted with individual investors are not subject to the Rules.

12 Options having the nature of, in part, plain options.

### **2-1-2. Certain Amount of Money (related to Article 2 (1))**

A certain amount money means money payable by payout in binary option transactions and, in the case where binary options caused payout as a result of exercise and the predetermined fixed amount is paid, such fixed amount.

For example, a derivatives transactions contract combining plain options exercisable when the price of underlying assets has reached the exercise price with forward transactions of underlying assets which, as a result, becomes a transaction with the structure that a customer receives the fixed amount of payout as a result of exercise shall be subject to these Rules, if such transaction is offered to individuals, because such transaction is in effect binary options. 9 10 11

The structure that three or more exercise prices are established and different amounts of payout are paid according to the price ranges created by each exercise price shall also be subject to these Rules.

However, the structure that, if exercise conditions have been met by any of exercise prices, the acquirer of the options can receive underlying assets if the acquirer of the options pay a certain amount to the grantor of the options or the structure that the upper limit is not established for the payout amount receivable by an acquirer of options shall not be subject to these Rules. 12

### **2-2. Underlying Assets (related to Article 2 (2))**

Over-the-counter binary options traded with individuals are one form of option transactions provided in (3) or (4) of Article 2.22 of the Act.

With respect to options to which Article 2.22 (3) (a) of the Act are applicable, underlying assets mean financial instruments which are objects of purchase and sale by a grantor and an acquirer of options as a result of exercise.

Because, among options to which (3) (b) of Article 2.22 of the Act are applicable, rights (options) to conclude transactions to which Article 2.22 (1) is applicable (forward transaction) or transactions to which Article 2.22 (2) is applicable (index forward transaction) fall within the scope of the jurisdiction of the Association, underlying assets mean financial instruments which are objects of forward transactions or financial indices to compute the amount of money to be paid and received in index forward transactions.

An option to which Article 2.22 (4) is applicable means a right to conclude transactions to pay or receive the amount of money computed by the difference between the predetermined value of a financial index and the value of a financial index at the time of exercise, "underlying assets" means the financial index to compute the amount of money. 13

The same applies to underlying assets of binary options.

Underlying assets which are objects of option transactions under the jurisdiction of the Association shall be claims, etc. based on a contract of deposit which are objects of interest rate futures transactions (limited to those provided in Article 2.24 (2) of the Act; hereinafter referred to as "money deposit, etc."), currency (Article 2.24 (3) of the Act) and financial indices which relate to interest rate of money deposit, etc.. or currency. 14

Financial indices include an index of the price of each currency or interest rate, etc. of

money deposit, etc.. (Article 2.25 (1)) and so-called indices putting together multiple prices of currencies and interest rates of money deposit, etc.

13 Refer to Article 2.22 of the Financial Instruments and Exchange Act.

14 Financial instruments such as foreign exchange forward transaction (Forward Exchange Agreement /FXA, cash settled Non-Deliverable Forward/ NDF) are included in transactions provided in Article 2.22 (3) (b) of the Act.

15 Exercise price of a plain option (Call) means the acquisition price of the underlying assets payable by the acquirer of the option to the grantor of the option at the time of exercise by the acquirer of the option to acquire the underlying assets from the grantor of the option.

### 2-3. Exercise Price (related to Article 2 (4))

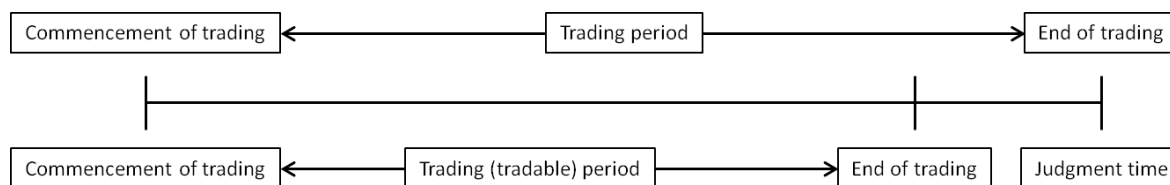
Exercise price in the case of binary options means the predetermined base price (or value) of underlying assets in order to check against the judgment price for the judgment of payout. 15

### 2-4. Judgment Price (related to Article 2 (5))

"Judgment price" means the price of underlying assets as at the exercise by an acquirer of a binary option. Judgment price also means the price of underlying assets at the time of the judgment in respect of a contract which is exercised automatically only at the predetermined judgment time or a contract which is exercised automatically when the price of the underlying assets has reached a certain price.

### 2-5. Relationship of Period, Time Point (Article 2 (8))

The following is the relationship of trading period, judgment time, tradable period, etc. in the case of the judgment as of the end of a trading period.



Note: End time of trading must be close to the judgment time as much as possible.

### 2-6. [Reference] "instrument", "issue name", "serial number"

In these Guidelines, "instrument", "issue name", "serial number" are clarified as follows:

- (i) instrument: one instrument is defined by the combination of one chosen from the classifications by conditions of exercise such as "binary option," "range binary option," "one-touch option", one chosen from the classifications of exercisable period such as European type or American type and one chosen from the classifications of call or put if there is such classification. 16
- (ii) issue name: one issue name is defined by the underlying assets (in the case of a currency, a currency pair (currency index)) regardless of a currency used for the exercise price or payout.
- (iii) serial number: regardless of instruments or issue names, one serial number is a pair of the time of the commencement and the time of end of a trading period.

In the case of offering multiple instruments, issue names and serial numbers, as follows;

| Instrument   | Issue name | Serial number | Trading hours         |
|--------------|------------|---------------|-----------------------|
| Binary call  | USD/JPY    | 1             | 9:00a.m. - 11:00 a.m. |
| Binary put   | GBP/JPY    | 3             | 3:00p.m. - 5:00 p.m.  |
| Range binary | EUR/USD    | 3             | 3:00p.m. - 5:00 p.m.  |

In the case of offering simultaneous transactions with different trading period such as 2 hour trading and 12 hour trading, it is necessary to represent the transactions by distinguishing such transactions with different trading period such as "binary option (2 hours)", "binary option (12 hours)" in order to ensure that customers understand correctly.

16 Referring only options in which judgment is made only at the closing time of the trading

period for payout in this session (original type of binary options).

### 3. "Trading Period" (related to Article 3)

Based on the last report by the Association's Binary Option Working Group published on April 24, 2013, 2 hours should be appropriate for a trading period of an over-the-counter binary option transaction with individuals for the time being.

Therefore, a Member who offers over-the-counter binary option transactions with individuals must determine the minimum base value for a trading period which must be at least 2 hours, and control the business operation.

In the case of establishing exercise prices by a certain computation method, the base value shall be the period from the time of conducting transactions with customers until the judgment time after the establishment of specific exercise prices.

It is possible to establish duplicated trading periods for consecutive serial numbers. In the case of duplicating trading periods, however, a Member must widen the time span between the judgment time of the foregoing serial number and the judgment time of the following serial number by at least the minimum base value determined by the Member.

It is inappropriate, regardless whether they have the same length of trading periods or different length of trading periods, to establish less than 2 hour time span of the judgment times for a trading of different issue names unless there is a reasonable ground, because it may lead customers to conduct excessively speculative transactions.

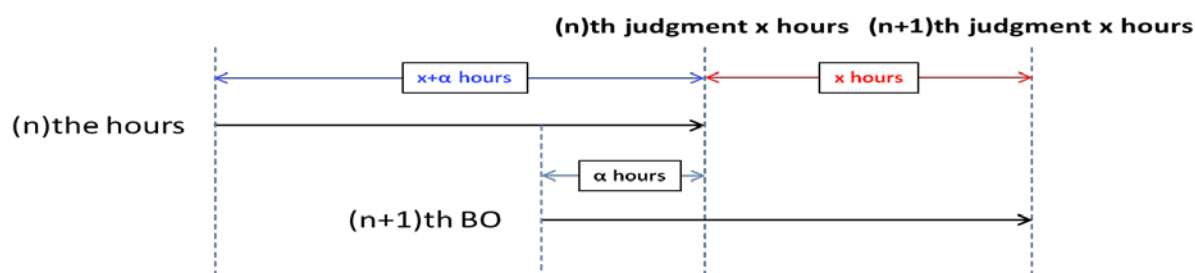
In the case of determining exercise prices by a certain computation method and determining specific exercise prices after the commencement of transactions with a customer, it is inappropriate to determine exercise prices at different and more than one time for one serial number unless there is a reasonable ground, because it may lead customers to conduct excessively speculative transactions. 17

A Member must, in the case of different instruments, be careful to establish serial numbers for different instruments in respect of the time span of the judgment times in order to avoid leading a customer to conduct excessively speculative transactions. 18

#### Example:

**Minimum trading period: x hours**

**BO trading period: x + α hours**

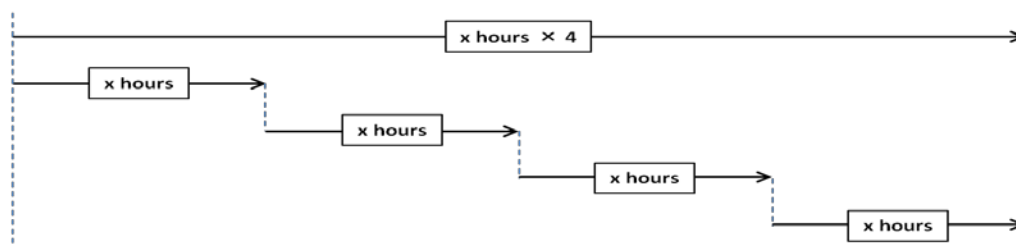


The maximum number to establish BO for a day is  $(24/x)$ .

It is possible to establish duplicated serial numbers of different trading periods. A Member should, however, also be careful to avoid leading customers to conduct excessively speculative transaction by such duplication of serial numbers. 18

### Example

Minimum trading period: x hours



## 4. Trading Term (related Article 4)

A Member must increase transparency of over-the-counter binary option transactions with individuals and provide customers with circumstances that customers can trade freely until just before the judgment time similarly to exchange listed options in order to prevent the investors' unanticipated occurrence of loss as much as possible.

Currency binary contracts listed on NADEX U.S. are traded by investors until approximately 2 minutes before a judgment time, which was checked by the Administration of the Association. A Member shall endeavor to implement the system to trade just before the judgment time, after taking into consideration of such foregoing example.

Meanwhile, the spread of trade prices increases substantially if it is shortly before the judgment time in actual trading, and it could be assumed that smooth trading becomes impossible. If such state will likely continue, it might be an effective measure to take the idea of the duplication of trading period, and provide a customer with circumstances to move smoothly to the next serial number as shown in "3. Trading Period".

Even if a Member duplicates trading hours, the Member must response to transactions to close customers' positions until just before the judgment time in respect of the foregoing serial number. 19

17 Reasonable ground includes establishing serial numbers corresponding to each trading hours for each of such markets after classifying currency pairs traded most actively on major markets such as Tokyo, London and New York, and establishing separately a serial number corresponding to a time zone where liquidity can be ensured for a specific currency with limited liquidity. Adjustment of serial numbers for a specific business day after considering the publication time of economic indicator, etc. which influence on price movement of currencies could be a reasonable ground for establishing serial numbers on such business day.

18 In the case, for example, where an exercise price is added in the middle of the trading period for a serial number the trading period of which is 24 hours, establishment of a serial number with duplicated trading period with other serial number at or before the time limit when addition of an exercise price is possible lacks reasonable ground and is not desirable.

19 In the case of duplicating trading periods, quoting of prices which facilitate smooth transactions with customers becomes more difficult for foregoing serial numbers. It could be possible, therefore, the following serial number responds to transactions to establish new positions, and transactions to establish new positions for the foregoing serial number terminates when smooth transactions with customers has become impossible, after the commencement of the following serial number.

## 5. Trading Method (related to Article 5)

It is important to establish the structure to win customers' trust that trade prices and other trading conditions are fair in order to ensure the development of financial futures transactions offered widely to individual customers. Conflicts of interest exist apparently between a customer and a Member in respect of over-the-counter transactions, further effort to establish the structure to be trusted is required.

With respect to over-the-counter binary option transactions with individual investors, a customer cannot judge easily whether exercise prices established or trade prices quoted by the Member are in favor of the Member unilaterally.

Assuming that a customer may become an acquirer or a granter of an option and, for

example, a firm quotes overvalued trade prices relative to the exercise price, the customer becomes a grantor and can receive the overvalued trade prices (premium). In such a case, the firm who has become an acquirer of the options becomes disadvantageous. If, therefore, a customer can conduct purchase transaction and sale transaction anytime, the best choice for the firm shall be to quote appropriate trade prices and expand transactions.

If a firm acts in accordance with the best choice and a customer understands such attitude of the firm, the customer would increase the sense of trust on trade prices. ((1))

Even by the method other than the method that a customer can become an acquirer and grantor, similar effect could be expected by eliminating trading conditions to result in advantages of only the firm (so called "take all").

For example, the relationship that the payout amount and loss amount from binary option transactions are fixed amounts causes theoretically the following relationship:

$$\text{Call option price} = \text{payout amount} - \text{put option price}$$

Using the above relationship, it could be thought that the method of conducting purchase transactions of binary call options and binary put options with the same currency, exercise prices, trading period simultaneously. 20 21

Actual trade prices generated based on theoretical values which are backed by the above relationship may not come to the same result as the above however, and in such a case, it is necessary to explain fully in advance about the reason why such situation arises. 22 23

Even if, on the other hand, a firm has explained to customer fully, the firm must recognize prices significantly different from call and put prices obtained from the above formula as inappropriate and effect the firm's price control. ((2))

20 Limited to the case where payout in the case of the judgment price = the exercise price belongs to a holder of either call or put such as the judgment price  $\geq$  the exercise price in the case of call, the judgment price  $<$  the exercise price in the case of put.

21 Binary options from which payout arises when the judgment price is equal to or higher than (or higher than) the exercise price is called binary call options and binary options from which payout arises when the judgment price is equal to or lower than (or lower than) the exercise price is called binary put options.

22 If, for example, a Member offers only purchase transaction for both put and call and quotes prices after adding margins for the Member, the formula in the main text may not come into effect because of the margins for the Member. In this case, the comparable margins for the Member are charged to put and call, and the offsetting price is the price after the deduction of such margins for the Member, and further the relationship that the total of offsetting price of call and offsetting price of put equals to payout amount is true, such case has a reasonable ground.

23 In order to make the formula effective, payout amount in the case of the judgment price = exercise price is added to either of put or call, the Member must explain fully to obtain understanding from a customer that the payout is treated differently between call and put in the case of the judgment price = the exercise price.

24 For example, prices in the case of odds used for gambling could not be prices based on a reasonable ground for individual financial instruments.

## **6-1 Reasonable Ground (related to Article 6.1)**

"Price based on a reasonable ground" means the price formed based on the result of value computation using predefined formula such as Black=Sholes Method for each serial number. 24

## **6-2. 2 WAY Method (related to Article 6.2)**

A structure to facilitate that a customer can confirm purchase price and sale price simultaneously means, so called 2 WAY method, the method to quote sale price and purchase price simultaneously to customers.

In the case of always quoting the same price of sale and purchase, the number of prices quoted is one. Such structure would be no problem.

In the case of conducting only purchase transaction using binary call option and binary put option simultaneously, the firm must also respond to transactions to close a customer's position and quote prices to close a customer's position together with purchase prices to customers.

If a firm duplicates a part of trading period and a customer has acquired new position of foregoing serial number, quoting only trade prices for closing the customer's position thereafter until just before the judgment time would be no problem.

### **6-3. Determination of Payout Amount (related to Article 6.3)**

Changes in option values during a trading period must be shown by changes in option premium (changes in trade prices). Therefore, the method to fix trade prices and show changes in value only by payout amount should not be allowed.

It is possible to establish multiple payout amounts using positional relationship between the exercise price and the judgment price. Payout amount must have been determined as of the commencement of trading of serial numbers. 25 26

A Member must implement the system disallowing to show values in a manner to lead a customer to conduct excessively speculative transactions without good reason such as showing a payout multiplying ratio to trade price or conducting multiple transactions in a lump. 27

25 There could, for example, be a structure of different payout amount in the case of the judgment price = the exercise price or a structure of using more than one exercise price to fix payout separately for each price zone created by each exercise price. Using such structure for the purpose of heightening a payout multiplying ratio is inconsistent with the purpose of the Rules of the Association.

26 The payout amount must be determined as at the commencement of a serial number in order to compare and consider prices of firms and understand the reasonableness. The structure that the payout amount is equivalent to trading values different among customers who paid the trading values during the trading period causes conducting transactions of different binary options for each customer, and such comparison and consideration becomes impossible, and therefore such structure shall not be permitted. Assuming, however, that trade prices are reasonable, for example, it could be possible to use the structure that trading value is returned to a customer by means different from the payout method by using a contract that a transaction is not concluded if the judgment price = the exercise price has been realized.

27 It is necessary to commonalize, among others, the unit of prices in order to enable comparison or consideration of prices of firms. For example, in the case of USDJPY plain option, quoting trade prices per USD 1 to customers could be the principle. Based on the structure of price computation of binary options, on the other hand, a firm is required to quote trade prices based on the payout amount, and in order to maintain comparability of trade prices for customer under such conditions, in respect to payout amount, the units from which a customer can easily compare such as 1,000 Yen or 10,000 Yen is desirable. The structure of fixing the investment amount of a customer such as 1,000 Yen or 5,000 Yen of trade price of options and adjusting the volume of options granted may harm the price comparability for a customer and could lead a customer to conduct excessively speculative transactions, and therefore inappropriate.

### **7-1. Determination time of Exercise Price (related to Article 7.1)**

Exercise Prices should be determined as at the commencement of trading of each serial number, except for the case where exercise prices are determined by a certain computation method and exercise prices are determined specifically after the commencement of transactions with a customer. If, for example, the commencement time of trading is 00 hour 00 minute: 00 second, an exercise price could be the first price shown by the underlying assets (tick) as of 00 second. However, any change in once determined exercise price is not allowed during the trading hour.

### **7-2. Addition of Exercise Prices (related to Article 7.2)**

Addition of exercise prices during a trading period may be made only if all conditions referred to in the items of Article 7.2.



Among these, (1) indicates that, if transactions with customers for at least one among exercise prices established for each serial number are conducted smoothly (even if such prices are not at-the-money), addition is not allowed.

The state that smooth transactions are not conducted could mean that, for example, transactions with customers are not conducted before the time when addition is made and the foreign exchange market after the addition will unlikely move to the direction of the existing exercise prices.

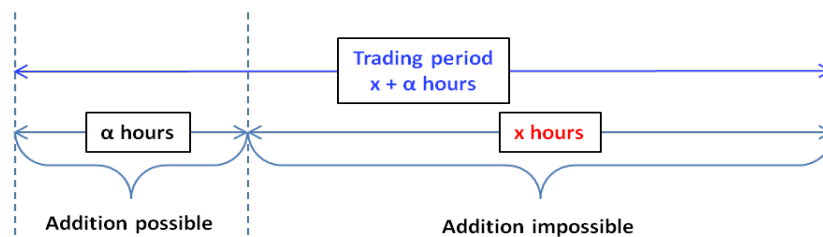
Even if an exercise price is added, a Member must continue quoting trade prices based on exercise prices established before the addition and respond to transactions to close positions of customers who have held such positions..

(2) provides for the time limit to add an exercise price, as shown below.

### Example

**Minimum trading period: x hours**

**BO trading period: x + α hours**



(3) indicates prerequisites in the case where an exercise price may be added. In order to ensure customers' full understanding of the effect that an exercise price will be added and the method of addition, containing in a trading guide and the summary of specifications to be published is provided.

## 8. Method to Determine Exercise Price (related to Article 8)

With respect to over-the-counter binary option transactions with individuals, a Member must determine an exercise price appropriately in a manner to avoid high payout multiplying ratio as at the commencement of trading. 28

Lower trade price causes higher payout multiplying ratio because an over-the-counter binary option traded with individuals in accordance with these Rules has a fixed payout amount.

A trade price goes lower as the exercise price differs more from the price of underlying assets in the case of out-of-the-money, and goes higher as the exercise price differ more from the price of underlying assets in the case of in-the-money.

A trade price goes higher as the trading period is longer in the case where the exercise price is determined on the side of out-of-the-money where exercise prices are, and goes higher the trading period is shorter in the case where the exercise price is determined on the side of in-the-money.

In establishing exercise prices, therefore, the Member must balance the width of exercise prices between the prices of underlying assets as at the commencement of trading and the length of the trading period in order to avoid high payout multiplying ratio.

The width of exercise prices could, for example, be, as an idea, implied volatility or historical volatility of object currencies for the same length as trading period.

Even if, however, volatility is used as the base to determine exercise prices, it could be desirable for each Member to establish exercise prices carefully with multiple bases such as limiting the width of the price of underlying assets and the exercise price as at the commencement of trading in addition to the base of volatility to avoid significantly high payout multiplying ratio at the stage of the commencement of trading.

28 Payout multiplying ratio = Payout amount ÷ option price

## 9. Summary of Specifications (related to Article 9)

A Member makes the summary of specifications on the Member's Website always available

to the public. With respect to matters which are subject to the summary of specifications, please refer to Schedule "Necessary Matters of Summary of Specifications Contained in Over-The-Counter Binary Option Transactions Trading Guide" provided by the Administration of the Association.

Nowadays, various information is provided through the Internet or other means including those which may be untrue, and individual customers could have false preconceptions concerning over-the-counter financial futures transactions.

If, therefore, a Member offers financial futures transactions to individuals widely, the Member must endeavor to implement the circumstances to enable a customer to confirm accurate information in respect of specification or trading method of financial futures transactions that the customer wishes to conduct and understand the information fully before an individual who is a customer carries forward the concrete procedures to commence transactions.

In accordance with these Rules, the summary of specifications to be published will be matters contained in a trading guide. A Member should endeavor to publish such matters positively, and offer investors who consider making investment opportunities to increase knowledge before such investment.

### **10.1 Examination of Advertisement (related to Article 10.1)**

It is inappropriate to give false understanding on specifications of, or risks associated with, over-the-counter binary option transactions with individuals or use impressions or explanations to lead customers to easy investment, as equivalent to advertisement approach on other financial instruments. A Member must implement the business system to ensure that such advertisements are not used through examination of advertisement. With respect to concrete impression or explanation which could be inappropriate, please refer to "Q&A regarding Advertisement" prepared by the Administration of the Association.

### **10-2. Affiliate Advertisement (related to Article 10.2)**

In using an affiliate advertisement for over-the-counter binary option transactions with individuals, the Member must use existing Guidelines for FX transactions and endeavor to control appropriately.

Considering the specifications of binary option transactions however, there are concerns that an affiliate advertisement under indirect contract may not be controlled fully. A member must confirm the contents to be used more carefully such as knowing the details in advance.

### **10-3. Cash Back (related to Article 10.3)**

There are concerns that providing gifts such as cash back for over-the-counter binary option transactions with individuals could prevent calm judgment of investors, which is worse than the use of an affiliate advertisement.

If cash back campaign is advertized using an affiliate advertisement, such concerns increase, and therefore, a Member must take a careful attitude for such as holding back of giving gifts.

## **11. Criteria for Commencement of Trading (related to Article 11)**

A Member must, in principle, classify the attributes of customers, establish criteria for the commencement of trading and trading limit for each type of financial instruments that the Member offers, judge whether trading with the customer is right or wrong and control trading conditions.

A Member may treat financial instruments in the same category with the same criteria or control a type of financial instruments with low risk and a type of financial instruments with high risk together and apply high risk type to them.

There would be no problem for using criteria for the lowest of customer attributes to control other customer attributes with the same criteria.

- (1) Transactions used to count years of investment experience would include overall financial futures transactions, financial derivatives transactions other than financial futures transactions, commodity derivatives transactions such as commodity futures transactions, margin transactions (shares of stock).

With respect to years of experience, about one year experience of such transactions, although it depends on actual trading volume and frequency of trading, could be appropriate generally.

- (2) The result of confirmation in Article 12 should be used.
- (3) With respect to the revenue of a customer, for example, II-4-2 Suitability principle of "Commodity Futures Broker Supervisory Guidelines" in the commodity futures industry with similar risk illustrates the example of, as those which require careful handling, a certain revenue (5 million Yen or less). This example should be referred and establishment of effective criteria according to customer attributes is required.
- (4) Inclusion of "hedging transactions" which are basic needs for option transactions into the choices to confirm investment purposes could be necessary. In the case where the purpose is hedging transactions, the type of assets requiring hedging and the amount of such assets should be confirmed. 30
- (5) In the case where the limit of trade and the limit of loss determined by a customer is controlled by margin deposit by the customer, the declaration of an amount deposited by the customer could be acceptable in lieu of accepting individual declaration by the customer such as trading limit.
- (6) Other matters required to be confirmed include matters generally required to confirm at the time of account opening such as the age and job.

With respect to criteria items to judge the suitability of a customer for investment in binary options, etc. among confirmation factors determined by the Member, the Member should not trade with such customer in principle in the case where the customer fails to meet criteria for any of such items.

In the case of a person who has knowledge significantly higher than criteria and sufficient financial assets but whose experience of derivatives transactions only fails to meet the criteria, however, it is reasonable to establish, for a certain period, a trading limit lower than an ordinary trading limit to allow the commencement of trading after full confirmation that the customer makes investment based on his or her self responsibility through the method such as an internal controller's visiting the investor depending on the intent of the investor in accordance with internal procedures established in advance.

In the case of a customer who has the purpose of hedging transaction but has not declared the investment amount necessary for hedging, paying consideration such as encouraging the customer to declare is desired.

A Member must contain customer information under Article 11.1 in the customer card, arrange circumstances to facilitate a customer to update when needed, and encourage the customer to confirm and review registered information periodically at least about annually. 31 32

29 A customer who trades before the enforcement of the Rules may continue to trade. After the enforcement of the Rules, however, if a Member confirms customer information with such customer, the Member should add the matters from (3) to (6) and encourage registration of customer information and treat carefully a customer who has been found to fail to meet criteria as a result of the renewal of information, including the suspension of transactions.

30 If hedging is included in choices and has been selected, it could be the method to request the customer to declare the types and value of object assets.

31 With respect to a customer who has been conducting before the enforcement of the Rules, a Member should control customer information through renewal opportunity of customer information within one year and to ensure entry in a customer card.

32 There is no problem to use a customer card for other financial instruments too.

## **12. Explanation to Customers (related to Article 12)**

A Member must check whether a customer has necessary knowledge or not by concrete means such as examination. Examinations can be conducted by means of choice between the two such as true or false method. A Member must avoid easy questions that easily show the answers and conduct an examination with quality and number of questions (the scope of the examination) sufficient to measure the degree of understanding about necessary knowledge of each customer.

A Member must determine, in advance, the percentage of questions correctly answered which shall be a standard and implement the system such as arranging business flow not to trade with a customer who fails to reach the level. A Member is required to have thorough system not to trade with a customer lacking knowledge regardless of financial resources of such customer or other judgment factors.

It is desired to provide a customer with learning opportunities fully by means of posting on the Website information necessary to gain knowledge. It is important, however, that a Member should avoid posting examination questions themselves and use the method to take questions randomly chosen from many questions for an actual examination in order to prevent the leakage of examination questions.

A Member must take efficient system such as the method that the Member will not respond to an application by a customer for an examination at least until the business day immediately following the examination in which the customer has failed to meet the criteria as a result of the examination.

33 The date of conducting confirmation examination, score, and judgment result as matters could be stated in a customer card.

34 Regardless whether a customer becomes an acquirer or grantor of binary options or whether there is a loss cut regulation or leverage regulation, a Member must collect an acknowledgment at least once a year from all customers (including a customer with the nominee of a juridical person).

35 Payout amount from binary options traded with a customer is recognized as trading amount with such customer similarly to a quarterly report to the Association,

### **13. Trading Guide (related to Article 13)**

Interpretation regarding the summary of specifications published must be contained in a trading guide or schedules integrated with a trading guide to ensure customers' further understanding.

Matters stated in an acknowledgment which were collected from a customer pursuant to Article 14 and must be explained in detail must be explained fully using concrete information and therefore explanation regarding matters stated in an acknowledgment must be attached to the trading guide.

#### **14-1. Collection of Acknowledgment (related to Article 14.1, 14.2)**

A Member must collect an acknowledgment provided in Article 8-2 of the Business Conduct Rules for over-the-counter binary option transactions with individuals from a customer each time of conducting trading with the customer similarly to currency related over-the-counter option transactions.

Over-the-counter binary option transactions with individuals conducted in accordance with the Rules and these Guidelines are transactions with the structure to enable continuous and repeated transactions and therefore could be deemed to be "uniformed transactions" defined in Article 8-2.2 of the Business Conduct Rules. A Member may collect an acknowledgment once a year from a customer in respect of over-the-counter binary option transactions with individuals to which these Rules are applicable.

#### **14-2. Remarks Stated in Acknowledgment (related to Article 14.3, 14.4)**

The items of Article 14.3 show remarks specific on binary options. These matters must be explained specifically to ensure a customer's full understanding by means of showing the customer information of such matters.

A Member must, in the case of, for example, using an electronic file, establish a link between

the portion in an acknowledgment and the portion of explanation in a trading guide to facilitate that a customer can confirm the details easily and print them and check having confirmed and a Member confirms the understanding of the customer through the acknowledgment. In the case of using an electronic file, a record should be kept in a manner to clarify that a customer has checked for having confirmed.

#### **15-1. Establishment of Trading Criteria Classified by Attributes (related to Article 15.1, 15.2)**

In conducting transactions with a customer who meets the criteria for the commencement of trading, the Member determines criteria items and applicable values to control transactions with such customer according to the classification of the customer's attributes as equivalent to the criteria for the commencement of trading. In establishing such criteria and values, the Member must consider the durability of financial resources against losses as well as observing point as a bona-fide financial instruments firm who looks after the customer not to go into excessively speculative transactions.

A Member may control by classifying attributes as stated in 11., by using the same criteria for financial instruments in the same risk category or by the criteria for higher risk combining types with lower risk and types with higher risk.

Similarly, a Member may control using criteria for the lowest attribute for other higher attribute uniformly.

#### **15-2. Concrete Criteria, etc. (related to Article 15.3)**

Items of trading criteria could be:

- ② the total trading amount for a certain period;
- ② the total loss amount for a certain period; and
- ③ the largest position.

The combination of "one business day" and a certain length such as half year could be a certain period in the above.

Considering the controlling burden in the case of establishing multiple types of items, consolidation, unification and substitution of criteria could be possible with the following ideas;

- (a) in the case of computing the trading amount as payout amount, the base value for the total trading amount can be used concurrently with the base for loss amount because accumulated loss amount will not exceed the total trading amount in the case of binary option transactions.  
35
- (b) an over-the-counter binary option transaction contract prepared by a Member provides for margining system and require the deposit of margins equivalent to the maximum loss amount as at the conclusion of transactions, and is structured not to occur the amount of losses equivalent to or more than the amount of margins. Criteria are set as the limit amount of margin deposit, and substitute the total trading amount and the amount of loss.
- (c) in the case where a transaction to establish new position per one serial number is one time, assuming the base amount for the total trading amount for a certain period (such as half year) per the lowest attribute criteria, the limit of trade and the limit of loss are substituted with the value of the assumed amount divided by the number of business days during the period, the number of judgments established within one business day, and establish the upper limit on the trading amount per once uniformly to all customers.

A Member may control the limit of trade and the limit of loss of a customer effectively by appropriate means established by the Member. In any of the methods, the Member must control to keep such limits from the amount declared by a customer pursuant to Article 11.

A Member who establishes trading criteria together with other financial instruments transactions regarding over-the-counter binary option transactions with individuals must consider the nature of such financial instruments and the customer's investment purpose on such financial instruments fully. 36

The method of comparing the result of transactions with a customer with the base value after

periodical aggregation later as a concrete control, which is called after-the-fact monitoring, could be a concrete control. In the case where aggregation cycle is more than one week, a Member must implement the system together with the structure not to cause unanticipated loss with a customer such as establishing restrictions on the maximum amount of positions per one serial number or the number of transactions.

36 It could be inappropriate to control financial instruments the nature of risks or way of treatment of investment amount of which differs (for example, the difference of risks associated with cash national government bond and debt certificate futures transactions, trading amount is computed by the notional principal amount in the case of FX and plain options but payout amount in the case of binary options) by means of accumulating trading amounts simply.

37 A Member may require a customer who has the purpose of hedging to declare the limit of trading definitely.

### **15.3. Amount Declared by Customer (related to Article 15.4)**

These Rules require the declaration of the limit of trade or the limit of loss determined by a customer as customer information required to obtain as one of procedures for the commencement of trading under Article 11.1 (5).

A Member must endeavor to control transactions with a customer with respect for the declaration by the customer. If the amount declared by a customer is loose than trading criteria determined by the Member, the Member must control using the criteria of the Member and if the amount declared by a customer is stricter, the Member must control using the amount declared by the customer.

If a customer does not declare the trading limit, etc., the Member should control using the criteria established by the Member. 37

### **15.4. Announcement, etc. to Customers (related to Article 15.5)**

When a Member has detected a customer who fails to meet trading criteria, the Member could respond in a manner, for example, to cease transactions to establish new positions with the customer immediately, but at least, the Member should take first motion quickly based on the actual relationship with the customer such as advising the customer of the fact of such meeting trading criteria and reasons therefor by the day immediately preceding the day of such meeting and take a responding step of ceasing transactions after confirming the intent of the customer.

In the case where such response is taken however, if the customer's intent cannot be confirmed within a certain period or the customer does not follow procedures necessary to continue transactions, the Member must take measures to cease transactions with such customer and control the operations not to lose the protection of investors.

In any case, it is wise, in order to avoid having troubles with a customer caused by cessation of transactions, to clarify in the trading contract that transactions will be ceased when trading criteria have been met and confirm the customer's understanding through the occasions of confirmation of acknowledgment before the commencement of trading.

### **16-1. Discontinuation of Transactions (related to Article 16.1)**

Special reasons for cessation or discontinuation of transactions with customers could include sudden big move of the foreign exchange market to disable smooth trades, occurrence of large-scale disaster or terrorism, occurrence of the failure of the system and occurrence of the irregularity of price information in a price information delivery service.

Although biased order inflow from customers influencing gravely on financial conditions of a Member and causing disability to respond to all order placements could be one of special reasons, easy cessation of transactions with customers for the reasons of biased orders could be inappropriate operational system as a Member.

### **16-2. Disclosure of Discontinuation of Transactions, etc. (related to Article 16.3)**

Information of cessation, etc. of transactions must be informed to not only each customer who is already trading but also all customers through the Member's Website. If a Member cannot

clarify the reason for such cessation, etc. in a timely manner, the Member must take a quick and flexible response such as informing all customers about the cessation first of all and informing further at the time when the reason for the occurrence has been clarified.

### **16-3. Reviewing System (related to Article 16.5, 16.6)**

An officer, etc. in charge of internal control must direct and control prompt publication of the fact, investigation of influence on customers, verification of reasons, etc. for occurrence and preparation and enforcement of measures to prevent reoccurrence, etc. In clarifying and reviewing of reasons for occurrence particularly, the officer, etc. in charge of internal control must design an organization and operations and allocate staff in order to ensure appropriate reviewing, etc. without relying on the division in charge of the occurrence.

A Member must further endeavor to promote appropriate operation by the mechanism that the internal audit division confirms after-the-fact properness of the judgment in the result of verification.

### **17-1. Reviewing Trade Prices (related to Article 17.1)**

Unlike FX transactions, there is no information vendor for binary options who provides individual investors with market prices, and therefore, appropriateness of prices cannot be reviewed by using external information. In order to review appropriately, a Member must keep parameters for computation of trade prices, duplicate the prices by using the computation formula and check prices quoted actually and prices traded and judge the appropriateness and properness of transactions. If the Member commissions the price formation itself externally, the person so commissioned keeps the data related to parameters as confidential or the types and volume of the data related to the parameters are too huge to keep, the Member must, regardless of a person commissioned, establish the computation formula for trade prices used as standards, prepare parameters necessary for computation by such formula, fix the standard value for reviewing by the computation formula and parameters at the time of reviewing, and, if values for reviewing and the actual trade prices, etc. differ irregularly, the Member must analyze the reason and confirm the appropriateness.

These data required for reviewing must be kept for three years in accordance with distribution data rules and data keeping rules applicable to over-the-counter FX transactions which are applied *mutatis mutandis* under Article 19. 38

If a Member is engaged in FX transactions and uses its own FX rates for the computation of trade prices of over-the-counter option transactions with individuals and inconvenience has occurred such as distributing bad tick has been distributed for FX transactions during trading period of over-the-counter binary options traded with individuals, the Member must verify the influence on prices of over-the-counter binary option, and, if disadvantages have occurred with customers, the Member must handle properly in respect of such customers.

It is desirable to review ideally always. As it is difficult effectively however, a Member is requested to perform it as frequently as possible based on the size of business of each Member, at least once a day by means of sampling.

### **17-2. Reviewing of Judgment Prices (related to Article 17.2)**

Judgment prices must, in a similar manner, be kept for three years as data used for the purpose of reviewing appropriateness of transactions. In the case where a Member who is also engaged in FX transactions uses data of an external information vendor for judgment prices of binary option transactions, the Member must check the Member's FX data and confirm whether there was bad tick distribution from the external information vendor. If the Member uses prices of FX transactions for judgment prices, the Member must review whether there is manipulation of prices by using distribution information of the external information vendor. 39

It is desirable, in respect of the frequency of reviewing, to review always ideally in a similar manner as trade prices. As it is difficult effectively however, a Member is requested to perform it as frequently as possible based on the size of business of each Member, at least once a day by means of sampling. 40

In the case of determining exercise prices by a certain computation method, such determined

exercise prices are subject to data keeping or reviewing in a similar manner as trade prices and judgment prices.

### **17-3. Reviewing System (related to Articles 17.4, 17.5)**

An officer, etc. in charge of internal control must endeavor to implement the system to enable direction and controlling on reviewing of trade prices and judgment prices similarly as 16-3.

A Member is required to make thorough after-the-fact confirmation by the internal audit division in respect of reviewing result, etc. and concentrate on establishing the structure to trade at appropriate prices.

38 The period to keep data is three years according to Articles 25-2 and 25-4 of the Business Conduct Rules which is applied *mutatis mutandis* under Article 19 of the Rules and its Detailed Rules (related to Data Keeping for Over-The-Counter Foreign Exchange Transactions).

39 Same as 38.

40 If reviewing is made single-handed, fully automatically by a system or program and, separately, the structure to confirm always that system, etc. is operated in a normal way, a Member may not necessarily conduct daily reviewing in respect of prices, etc. (It is necessary to review periodically by means of sampling of actual data such as reviewing weekly in lieu of daily).

### **18. Publication of Trade Result (related to Article 18)**

The total payment amount by a customer includes payment amount in the case where the customer who held short positions pays the payout amount as a result of judgment. In this case, the Member must account for the total amount without deducting premium that the customer receives.

In the case of offsetting long positions in mid-course, the amount of sale (cancellation) is accounted as the amount received.

It is desirable for all Members who are engaged in over-the-counter binary option transactions with individuals to sum up at least once a month, and publish once a month through their Websites by the seventh business day of the month for the result of the immediately preceding month. It would not be problem to publish the real value instead of ratio or publish the performance record for a period other than one month unit.

### **19. Mutatis Mutandis Application (related to Article 19)**

The provisions of Articles 25-2-2 and 25-2-3 of the Business Conduct Rules apply *mutatis mutandis* under Article 19. Such provisions provide for obligations for explanation to customers about an order execution system and trading rules. Over-the-counter binary option transactions with individual investors to which these Rules are applicable are also involved in quoting to customers trade prices which always move and make transactions, and therefore have high probability of causing slippage and *mutatis mutandis* application of such Rules would be appropriate.



**Summary of Specifications Required to be Contained in Over-The-Counter Binary Option Transactions with Individual Investors Guide**

- (1) Name of transaction  
The name of such transactions called by the Member shall be stated.
- (2) Classification of Instruments  
The name generally used as binary options such as binary options and range binary options shall be stated. In the case of adding the name representing the exercise timing such as American type or in the case of offering call options and put options simultaneously, call or put can be added to each name. 41  
  
41 Such as binary call options and range binary put options.
- (3) Underlying Assets  
Type of underlying assets shall be stated such as money deposit, etc., currency, currency index or interest rate index.
- (4) Trading Method  
Whether purchase transactions to establish new positions or sale transactions to establish new positions are offered or not. If the delivery or payment of trading value is not made until the settlement date as margin transactions, the fact of margins transactions shall be stated.  
In the case of engaging in only purchase transactions, the explanation that offsetting transactions of options can be made shall be added.
- (5) Method of Exercise  
Timing of exercise such as the distinction of American type or European type (whether exercisable) and whether an acquirer is required to show the intent in the case of exercising (in the case of automatic exercise, such fact) shall be stated. If it is unknown to which the binary options belong among American type, European type or Bermuda type, matters related to the timing of exercise shall be stated,
- (6) Trading Period (Hours)  
The time to commence transactions and the time to close transactions shall be stated.  
If the closing time of transactions is different from the judgment time, the time to commence trading and the time to close shall be stated separately. If transactions to offset positions continuously after the closing of purchase transaction, the closing time of position offsetting transactions shall be stated separately. If a Member establishes a reservation period prior to the commencement of a trading period, the Member must state the commencement time and closing time of the reservation and state whether cancellation of the reservation is possible during the reservation period or, in the case of cancellation, the cost liable by a customer separately for easy understanding.
- (7) Judgment  
Remarks on judgment shall be stated. The following matters particularly must be stated in a easy-to-understand manner.
  - The method of handling of payout in the case where the judgment price and the exercise price is the same. (If payout does not occur when both prices have become same, explanation in a easy-to-understanding manner is necessary.)
  - Which price information, among Bid, Offer and Mean, will be used for judgment price (in the case of using other price, concrete explanation shall be stated.)
  - Measures to be taken in the case where price information cannot be obtained at the judgment time (concrete explanation is required such as substituting with the value obtained immediately after the judgment time or cancellation of trades).
- (8) Provider of Judgment Price to be Used  
For example, in the case of using foreign exchange rates used for FX transactions of the Member as the judgment price, such fact, and in the case of using foreign exchange rate provided by an external information vendor, the name of such information vendor shall be stated. If rates always used for judgment cause some trouble and other information is used, the Member is required to state such fact and the provider of such other information.

- (9) Method to Establish Exercise Prices  
Matters provided in Article 7 (timing of determination of exercise prices) and Article 8 (establishment of exercise prices) shall be stated. In the case of binary options having multiple exercise prices such as double one-touch, the price difference shall be explained separately.
- (10) Addition of Exercise Prices  
In the case of adding an exercise price during the trading period, such fact and conditions, etc. for the addition such as the time of addition shall be stated.
- (11) Trading Unit  
The payout amount and volume (amount of money) for one transaction of a binary option, etc. offered by a Member shall be stated.
- (12) Minimum Price Change  
Minimum unit of an order price according to the intervals of order amounts. If there is an upper limit on order price, such upper limit shall be stated. If quotes are changed or restricted depending on trading conditions, such fact and principles for the treatment shall be stated.
- (13) Method to Determine Trade Prices  
In the case of auction method, such fact, in the case of other method, the summary of the theory used for determination of prices, the relationship between the theoretical price and trade price, in the case of STP method or White Labeler, the name of the contracted firm shall be stated. 41 42 43

42 The method to conclude transactions by means of individual competition which matches the conditions of a sale order and the conditions of a purchase order under the rules of the price priority principle or the time priority principle.

43 Straight Through Processing. The mechanics of transmitting prices to a covering party, etc. without intermediation of a dealer to conclude transactions.

44 The method to provide a trading system with the name of the counterparty. The party who uses the trading system provided by the provider with the name of the firm itself is called a white labeler.

The name of the covering party (in the case of an overseas firm, together with the name of the supervisory authority) shall be stated.

A Member shall keep the following matters in mind, and ensure the response such as making detailed explanation.

- illustration by examples of major parameters (volatility of underlying assets, interest rate, etc.), or for example, how the option price moves responding to the movement of each parameters (explanation should be made in a manner of easy-to-understanding using charts or tables)
  - with respect to the difference between the theoretical price and the actual trade price, the reason for such difference, in the case where the difference ratio moves, the summary thereof shall be explained in a manner of easy-to-understanding such as using charts or tables.
  - if there is a spread between purchase price and sale price, the reason for the existence of such spread, and if such spread moves, the summary thereof shall be explained.
  - If call options and put options with the same conditions (underlying assets, etc., exercise prices, judgment time) are used and the amount of the trade price of call option is not equal to the payout amount of put options less the trade price of put options, the reason therefor shall be explained.
- (14) Payment and Receipt of Trade Amount  
Treatment of trading value at the time of conclusion of a trade (distinction of immediate settlement, offsetting transaction or settlement at the time of settlement by judgment) shall be stated. Explanation shall be made for the timing of reflection of the settlement amount to customer deposit data.
- (15) Settlement as a result of Exercise  
The timing and method of payment or receipt of the settlement amount as a result of judgment shall be stated. In the case of one-touch options, a Member must clarify as of when the settlement is made such as whether the settlement amount is paid or received as at the time of the judgment or as at the time of expiration determined at the beginning.
- (16) Trading Suspension Reason  
Reasons for suspension or refusal of transactions with customers prescribed in trading agreements and reasons which force suspension or delay transactions prescribed in Article 16.2

of the Over-The-Counter Binary Option Transaction with Individuals Business Conduct Rules shall be stated.

(17) Whether Margin Deposit is Required

In the case of conducting binary option transactions using margin deposit, such fact and method to deposit margin requirement, computation method, and the amount (ratio), etc. shall be stated.

(18) Additional Margin

In the case of adopting margining system, whether additional margin is required subsequent to position valuation shall be stated. When needed, the deadline of payment and how failure of the payment is treated shall be stated together.

(19) Loss Cut Transactions

Treatment of loss cut shall be stated such as, if loss cut does not occur effectively because of using the structure of position valuation alone for binary option transactions, such fact, and if valuation is made together with other currency related derivatives transaction, etc. and binary options become subject to loss cut when loss cut is needed, such fact, and the order of multiple positions held by a customer which become subject to loss cut.

(20) Separate Control

The method to keep money deposited by a customer for binary option transactions shall be stated.

(21) Limit (including controlling method (such as checking at the time of order placement, checking after conclusion))

Criteria established for the protection of customers such as the limit of trade or the limit of loss for a customer determined by the Member in accordance with Article 15 and the method of controlling the criteria shall be stated specifically.

With respect to controlling method of trading conditions, the distinction of the monitoring method (method to know when needed the conditions of order placement and conclusion, method to monitor trading result), and in the case of monitoring trading result, the frequency of monitoring, and if monitoring is conducted together with other financial instruments transactions, such fact and concrete method must be explained.

If there are cases such as dissolving transactions in the event of exceeding criteria for limit, etc., such fact must be stated clearly.

(22) Others

For example, explanation must be made for reasons (conditions) and method of compulsory settlement, treatment in the case of mal-distribution of rates of the Member, so called bad tick by an information vendor.

In the case of determining exercise prices by a certain computation method, the concrete determination method, determination time, the difference of trading method before the determination and after the determination, tradable period, and further remarks on transactions with customers before and after the determination of exercise prices.

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